We’ve Covered the First Thing – What’s Next!

Let’s do a lesson within a lesson that is based on the last lesson: How does interest rate actually affect you?

Some of you just said it does not. We don’t have credit. We don’t use credit. We aren’t involved in that. Bull, you’re wrong, and you are getting abused because of what you don’t know!

Okay, so you don’t have a credit card. The people you are buying from do. Okay, so you rent instead of buying. The people who own what you are renting pay interest which means it matters for your rent payment. The stores you buy from are paying mortgages which means they are including those fees in the thing that you buy. The schools you attend pay contractors, who take out loans and pass the cost onto you. The wifi signal that you used to download this lesson rented air space from someone who took out a loan to control that airspace which was made available to you for some sort of cost. Maybe the school paid which means your tax dollars on rent and purchases paid. Maybe, it is “free” at some random place, which means that business is paying the fee to lure customers in, and you will go in; they will make their profits. The point is you are paying interest even if you are not committed to an interest related contract. You may as well understand it and work it to your benefit.

Everybody is a sheep; don’t be sheep. Interest is so simple. You can and should understand it, but do you? Do your friends? Do your parents?

The answer is probably not. That means that as a creditor I can pretty much charge you in whatever way I want and while you may get frustrated you’ll never know how to explain how you’ve been wronged. So, your screwed, and I’m paid more than I deserve with your $$$. How does that sound?

People make it seem complicated, but it’s simple math that any of you can do. An interest rate is a percentage charged on the amount that you owe, and before you let that throw you – Stop! It’s just multiplication. Some of you can do that in your head, and if not you definitely can do it with a calculator. It’s so easy!

You have an interest rate and an annual percentage rate (APR). the APR is the actual amount that you are going to pay. So. let’s use that. (We’ll discuss the difference later.) Pretend your APR is 19%. All you need to do is take 3 easy steps:

1. Get out a calculator and divide your 0.19 (that’s the APR in decimal form) by 365 which comes to 0.000521
2. Approximate your average daily balance. You can look at the amount you owed at the end of every day after you things you bought using that credit and payments that were processed or you can keep it simple by saying I still owed X(amount) at the beginning of the month, and after payments and expenditures I owed Y amount and the end of the month. Add X and Y and divide by 2 and you should be fairly close (plus you just did basic algebra). Lets pretend your owed $3000 when the month started and $2500 when it ended. X is 3000) + Y is 2500) = 5500, and 5500/2 = 2750. So, your approximate average daily balance is 2750.
3. Multiply your average daily balance by your daily rate. Then multiply that times your days in the month, and you know exactly if you went day by day or approximately if you averaged how much you should owe.

(2750 x 0.000521) x 30 = 42.98

If your interest is very far off of that you need to ask some questions and keep asking them until you and the other person on the end of the line understand one another.

Now that you understand you have power. You are not dependent on the person on the other end telling you what is right and wrong. You can see it for yourself and move forward understanding what is to come for yourself. Think about it. If a 3-year-old has four bills, $100, $20, $10, and $1 and he buys something for $1. He doesn’t know which bill to hand over. A good person will take the dollar, but what will everyone else take?

Until he knows the difference he is weak and powerless. Once he knows he is empowered. Now you know. Apply and understand. Use what you know to make sure you control you. Be empowered.